

RECORD VERSION

STATEMENT BY

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INTRODUCTION

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear before you to discuss the status of acquisition reform initiatives in the United States Army. It is my privilege to represent the Army leadership, the civilian and military members of the Army acquisition workforce, and, most importantly, the soldiers who rely on us to provide them with world-class weapons and equipment to fight and win our nation's wars.

America's Army is the finest land combat force on earth. We are very proud of our soldiers and what they accomplish every day in countries all over the world. We thank you for your help and support in equipping them to do their jobs. As representatives of the American people, you have strongly supported our programs and guided them to fruition.

It is imperative that we sustain modernization. If not, our technological advantage over potential adversaries will diminish over time and increase the risk to our soldiers. Continuous modernization is one of the keys to dominance on the future battlefield and the key to readiness for unexpected challenges of the 21st Century.

THE MODERNIZATION CHALLENGE

While modernization funding for Fiscal Year 2000 remains relatively flat, the budget stems the decreases in modernization that began 14 years ago. In 1985, we spent almost \$32 billion for modernization; by 1998, we were spending just \$12 billion. Part of that decline reflects our decline in force structure. We've reduced the force by nearly 40 percent, but our modernization accounts have fallen by almost 65 percent. In fact, the FY98 budget funded Army procurement

at its lowest level, in real terms, since 1960. The FY99 budget broke that trend by adding an extra \$1.3 billion for modernization, increasing the total to \$13 billion.

The FY00 budget not only maintains that level of funding, but also takes pressure off the modernization account by providing increases in the accounts for readiness, base operations, and real property maintenance. Shortfalls in these accounts often turn modernization into the bill payer for near-term requirements.

Funding challenges have forced us to either reduce the quantities of systems or stretch our programs to great lengths or both. These actions raise unit costs and further delay modernization. In many cases, we maintain our procurement programs at minimum sustaining rates rather than more efficient economic rates. Add to this the fact that our weapon systems are aging because we have not modernized them as quickly as we should have. When coupled with the Army's increased operational tempo over the last decade, increased maintenance is required in order to avoid degradation in operational readiness. More maintenance means increased operations and support (O&S) costs. The increased O&S costs mean less money for modernization. Dr. Jacques Gansler, the Department of Defense's (DoD) Under Secretary of Defense for Acquisition and Technology, has appropriately called this the "death spiral." It is a trap. With the Abrams tank, for example, we find ourselves struggling to sustain and recapitalize it while, at the same time, we are trying to develop its replacement, the future combat vehicle/future combat system.

ACQUISITION REFORM

Acquisition reform is absolutely critical to our modernization program and the future readiness of the force. Efficiencies within our own operation produce savings, in some cases substantial savings, to reinvest in modernization. For example, we have reinvested savings of more than \$2 billion to increase near-

term procurement quantities of systems and to finance unfunded or under-funded programs.

Our goal is to field a technologically superior 21st Century force using a more effective, less expensive, and more responsive acquisition system. The Army is aggressively streamlining and continually improving business operations and practices to bring them more in line with commercial business practices. The introduction of commercial practices and components in defense acquisition not only saves us money, it also is essential to getting modern information technology into our weapon systems. It is not simply, as is sometimes said, that we must achieve a revolution in business affairs to pay for the revolution in military affairs. Yes, we need to find efficiencies, and it is terribly important to do so. But the operational needs of the Army demand, by themselves, that we change our ways of doing business to take advantage of the rapid advances being made in the private sector.

At the same time, we are empowering our Army acquisition professionals to continuously look for and adopt smarter ways of doing business. We know that in today's environment, we must acquire our weapon systems and equipment, supplies, and services far more efficiently than ever before. We are making steady progress. Our acquisition professionals are highly skilled, thoroughly trained experts who take pride in their jobs and are committed to doing their best. They are hard at work to ensure that our troops on the front lines have the best, most reliable equipment.

We are also hard at work to get as much of acquisition reform and better business processes into the procurement and acquisition system from all fronts as quickly as possible. Much has been accomplished, including the elimination of military specifications, the adoption of commercial and performance standards, the shift from lowest priced source selections to real emphasis on best value

procurements, reduced internal management, streamlined oversight, and the adoption of a teamwork philosophy using Integrated Product Teams.

Let me briefly highlight some of our key Army acquisition reform initiatives.

Life Cycle Management and Cost Reduction. Reduction of life cycle sustainment costs on new and fielded systems continues to be a major focus for the Army. Savings in this area are key to increasing our modernization account and accelerating Army efforts to digitize the force. O&S expenses can comprise up to 70 percent of a system's total lifecycle cost. Therefore, we must continually seek innovative methods to reduce these costs.

This year, for example, we selected 10 Army acquisition programs as "pilots" to test the efficiency of empowering a single manager – that is, the system Program Manager - to be responsible for oversight of system support for its entire life cycle. This initiative is being pursued as part of the Secretary of Defense's Section 912c Report, a Congressionally directed implementation plan to streamline and improve acquisition organizations, as required by the National Defense Authorization Act for Fiscal Year 1998. Three of the pilot programs were reported to Congress as required under Section 816 of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999.

To execute these new responsibilities, managers of pilot programs are encouraged to propose new and innovative methods and systems of life cycle sustainment. Support concepts like Partnering with Industry, Contractor Logistics Support, and Continuous Technology Refreshment are all a part of their toolboxes to execute their strategies. Some innovations may require changes in policy, regulations, statutes, or organization. These will be identified to Congress as appropriate. Our pilot programs include systems in all stages of their life cycles – from developmental programs such as the Crusader howitzer to legacy

systems such as the Apache helicopter. We believe the lessons we learn in executing these pilot programs will help us to apply life cycle management efficiencies to other Army programs.

Modernization Through Spares. Modernization Through Spares (MTS) is a good example of our efforts to reduce the life-cycle costs of existing systems. MTS means no longer buying spare parts based on outdated specifications and technical data packages. Rather, we now use performance specifications to take advantage of newer designs and manufacturing technologies. With this approach, we enhance the performance and reliability of our weapon systems while using our resources more efficiently. In the future, MTS will become a normal function of the materiel re-supply system through routine maintenance or equipment modification.

The results from some of the programs using MTS show great promise. For example, at the macro level, two Patriot missile subsystems, employing obsolete technology, were experiencing high failure rates, high maintenance costs, and unavailability of outdated spares. Two MTS projects were initiated to solve these problems. The results were an expected cost reduction of \$84.3 million over three and five years for the two subsystems, respectively, while increasing their reliability by an order of magnitude and reducing subsystem repairs by 92 percent. At the micro level, the cost of shock mounts for several helicopter gyroscope systems has been reduced from \$336 per unit to an almost unbelievable \$2.48! Further technology improvements to these gyro systems are expected to save \$62 million in long-term sustainment costs.

Paperless Contracting. The Army continues to aggressively implement a paperless contracting process, starting with requirements generation, to solicitation, to contract award, to contract closeout. An Army Paperless Contracting Integrated Process Team, established in November 1997, continues to address implementation of our paperless process throughout the Army. Our

vision is to harness technology to enable processes that eliminate all paper, provide a seamless transfer of data throughout the process, and acquire the supplies, services, and equipment to support Army XXI and Army After Next. Reducing paper transactions and resultant inbox queue streamlines the process, reduces cycle time and costs, and thereby promotes more efficient use of our resources – acquisition professionals and procurement dollars.

We have made great strides in the last six months. For example, electronic solicitations have nearly doubled from 37 percent to 69 percent, and electronic requirements have increased from 47 percent to 68 percent. We have established an Army Project Office responsible for managing implementation of paperless contracting. Further, we are currently fielding the DoD Standard Procurement System to replace our legacy contracting systems. Our Paperless Project Office continues to identify and fill gaps (such as a requirement generation tool for base and installations) and promote business process reengineering of our contracting process. Therefore, with few exceptions, the Army remains on track to eliminate 90 percent of all paper within the contracting process by January 1, 2000, in accordance with the goal established by the Office of the Secretary of Defense (OSD).

Simulation Based Acquisition. In the Army, this is known as Simulation and Modeling for Acquisition, Requirements and Training (SMART). The vision for SMART is a process that capitalizes on modeling and simulation (M&S) tools and technology to build high quality weapon systems and equipment in a cost effective and efficient manner. In building these systems, we will ensure that they accommodate easier, more effective training and will be easier and less expensive to operate, support, and maintain. SMART is a deliberate acknowledgment that we in acquisition cannot achieve our vision without the collaboration of those in the requirements and training communities who represent the user...our soldiers. The key to SMART is using M&S to enable the collaboration that must take place throughout the system's entire development,

starting with requirement identification. M&S allows us to assess system prototypes before they exist in hardware. We can develop a virtual prototype, have our soldiers put it through its paces in a virtual environment, and make changes to our system design and even the doctrine and tactics, techniques, and procedures associated with the new system based on the soldiers' feedback.

The Crusader program is currently in development and provides a good example of SMART application and the benefits that result. This howitzer and its resupply vehicle will give the Army, for the first time in decades, a system for providing close artillery fires that match and exceed the capabilities of potential enemies. When fielded in FY05, Crusader will be the premier cannon system in the world, with significantly enhanced mobility, range, rate of fire, and survivability. Using the virtual prototype, a physical interference with the two automatic munitions loading arms was discovered. Engineers were able to redesign the prototype and verify that a single arm loader resolved the interference problem and still met weapon system specifications and criteria. This design flaw would have been costly to the program had it not been discovered and resolved early, before the system went into production.

Purchase Cards. On another front, America's Army is the greatest user in the Federal Government of the government-wide Commercial Purchase Card. In FY96, the Army was the first Federal agency to exceed one million purchase card transactions for purchases valued at \$2,500 or less. The Army continues to lead the way. In FY98, we awarded more than 3.2 million transactions totaling over \$1.4 billion, shattering all previous records for the Federal Government.

Recognizing success, DoD asked the Army to represent the Department in the General Services Administration's competitive "Smart Pay" solicitation. That award will provide the entire Federal Government with purchase, travel, and fleet card services for the next 10 years. In addition, Deputy Secretary of Defense John J. Hamre asked the Army to establish and lead a Joint Program

Management Office responsible for bringing use of the purchase card for the entire DoD up to the 90 percent level by January 1, 2000. The Army has a separate goal. In FY98, we exceeded that goal by awarding 95 percent of eligible transactions using the purchase card. We intend to maintain this standard of excellence in the future.

Single Process Initiative. The Single Process Initiative (SPI) is that part of the acquisition reform effort designed to integrate defense and commercial processes by eliminating unnecessary military requirements and reducing costs. Concept proposals submitted by industry are evaluated by the Army acquisition community to determine if there are any negative impacts on legitimate military requirements and, if approved, are incorporated via block changes to all affected contracts at the facility level.

A recent significant development has been the establishment of Corporate Management Councils. These councils permit a review of a wide range of policies, including the relative benefit of implementing process changes at the Corporate level for multiple facilities. The Services are currently reviewing the role of SPI in support of the Civil-Military Integration effort announced by Dr. Gansler in June 1998.

Force XXI Initiatives, the Warfighting Rapid Acquisition Program. The Army Warfighting Rapid Acquisition Program (WRAP) was established in FY97 to accelerate fielding of systems and technologies that emerge successfully from the Army's Advanced Warfighting Experiments, Battle Labs, Advanced Technology Demonstrations, or Advanced Concept Technology Demonstrations. The Force XXI Initiatives process provides a bridge between experimentation and systems acquisition. Candidates for this program are selected based on urgency of need, compelling experimental success, technical maturity, affordability, effectiveness, and sustainability in the Program Objective Memorandum. Last month, we conducted a special meeting of the Army

Systems Acquisition Review Council to review the status of the WRAP initiatives approved in FY97, assess results, and develop lessons learned. We expect to provide Congress with the results this spring.

The other Services have expressed interest in WRAP. Clearly, the Force XXI WRAP Initiatives process is an acquisition reform success story – linking warfighting experimentation results to systems acquisition by delivering needed, soldier tested capabilities to units faster and more economically.

Legislation. The Congress has been extremely supportive of the Services' efforts to institutionalize acquisition reform. Beginning with the Defense Acquisition Workforce Improvement Act (DAWIA) of 1991, and continuing through the Federal Acquisition Streamlining Act of 1994 and the Clinger-Cohen Act of 1996, you have provided the acquisition workforce with the critical and necessary tools that have made acquisition reform into a highly valuable and successful undertaking. Our workforce now has a clear and meaningful career development process that will assure they are prepared for the acquisition challenges ahead. The legislation has enabled us to re-write the Federal Acquisition Regulation to provide ready access to the commercial marketplace and to the electronic commerce tools that shorten administrative lead times. Changes to negotiated procurement methods now provide earlier, more meaningful communications between government and the industrial base, yielding better and faster results. Use of past performance information in evaluating potential sources assures that the Army gets contractors with proven records focused on quality and excellence.

These are merely some highlights. Combined with other statutory changes, all of these legislated authorities contribute greatly to our ability to support the Army's mission. While our acquisition workforce is now more empowered than ever to execute their mission, I ask you to consider several additional initiatives:

- a. Amend DAWIA to increase the education requirements for entrance into the contracting career field. Presently, the law (DAWIA) requires that an entry level contract specialist have only 24 college credit hours within seven business-oriented academic curricula. In addition, there is currently no higher-level education requirement to qualify as a Contracting Officer. This should be raised to require candidates, both at the entry level and for Contracting Officer positions, to possess a bachelor's degree, preferably from one of those seven business-related curricula. Raising this standard will help to assure that our contracting workforce possesses the basic knowledge to undertake their expanding role as business agents and risk managers for the government.

- b. Make permanent the five-year test authority that allows the use of Simplified Acquisition Procedures in competitive acquisitions of commercial items up to a threshold of \$5 million. This authority is proving itself useful in shortening procurement lead times and in spurring acceptance of the use of commercial items.

- c. Provide the authority for meaningful contract incentives that will encourage our contractor-partners to both identify potential savings and enable them to share those savings with the government. For example, it may be possible to hire a contractor to provide a full range of energy efficient improvements at an installation, such as window caulking and insulation, for no charge except to share in the resultant energy savings. With the proper authority, it may also be possible to create contract incentives that enable our contractors to recommend meaningful streamlining to our logistics support operations. Hand-in-hand with sharing savings with our contractors, we need to assure that

the remaining contract savings are plowed back into the Army to enable us to achieve our modernization imperatives.

ARMY ACQUISITION WORKFORCE

The Army continues to pursue new initiatives to improve the quality and management of our Army Acquisition Workforce. These efforts have resulted in the elimination of duplicate functions, consolidation of organizations, simplification of procedures, improved professionalism, and increased efficiency throughout the Army. Total reductions from FY89-05 will amount to just over 72 percent (from 157,000 in FY89 to 43,842 in FY05) across the Army's acquisition organizations. As of September 30, 1998, Army acquisition organizations had an actual endstrength of 3,100 military and 53,482 civilians for a total of 56,582 positions (approximately 10,086 in maintenance depots). This is an 18 percent reduction over the previous year.

The Army currently uses an integrated approach in managing our professional acquisition civilians and military workforce. The premise of this approach is to build leaders by first gaining a strong technical foundation. When technical expertise is achieved, the acquisition professional may pursue career-broadening assignments and training such as leadership development and executive management courses, developmental assignments in another acquisition career field, and advanced degrees. The result is an acquisition leader with a balance among education, training, and experience.

This initiative paves the way towards our objective of achieving central management with the civilian acquisition workforce as we currently do with the military workforce. The Army currently uses the central management approach with the Program Management Board process. The military and civilians compete for Program Management positions across the Army. We will continue to broaden this approach for central management of acquisition civilians. The

Army believes this provides the most competitive, best-qualified leaders for our key acquisition positions.

We are continuing to provide our workforce with training through the Army Roadshows and Advanced Acquisition Reform II workshops. With the Army's senior leadership actively supporting the Roadshow, we have trained more than 16,000 personnel in the last seven years. During each Roadshow, Army leaders begin the program by sharing with those attending the latest information and perspectives on acquisition reform initiatives, directives, and guidance from OSD and Headquarters, Department of the Army. Next, we follow with hands-on practical exercises conducted in a workshop environment. With Roadshow VII, we visited 14 sites throughout the United States and Europe and presented two-day seminar/workshops. Our next program, entitled "Roadshow for the Millennium," will focus on "Commercial Sourcing and Privatization" and is scheduled for nine locations.

The Advanced Acquisition Reform Training II (ART II) provides contracting and acquisition personnel with onsite continuing education courses. Within the last two years, we provided this training to more than 600 personnel. This year the training builds on the initial Basic and second year Advanced Acquisition Reform I workshops. The Advanced ART II will conduct three and four-day workshops that offer 15 courses for our organizations to select from.

Both the Army Roadshow series and the Advanced Acquisition Reform Training workshops have become highly successful and actively sought out training tools for our workforce.

CONCLUSION

We are working hard to achieve a leaner, more efficient Army where more money is spent on soldiers and modernization and less on overhead. We have made good progress, but we have a long way to go. I call to mind a much used cliché: “Success is a journey, not a destination.” To remain efficient and ensure that we continue to improve and adopt new ways to do business, requires continuous process improvement.

Acquisition reform is a high priority in America’s Army. It is especially critical to our modernization program and the future readiness of the force. Our Army acquisition professionals work hard and work smart to support the soldier. Through our acquisition reform initiatives we save money and increase efficiency, but, more importantly, we get better equipment to the field faster and with less risk.

As history has shown us time and time again, soldiers on the ground are our nation’s strongest signal of resolve and the ultimate expression of American will. Today’s world demands that America’s Army change with it, and we are. We are on a viable, reasoned, deliberate course to transform our Industrial Age Army into the world’s first Information Age Army. Army acquisition professionals are on the front line in our process to create, shape, test, and field a force prepared to meet the challenges of the 21st Century.